

**HABIB BANK LIMITED**  
**BALANCE SHEET**  
**AS AT SEPTEMBER 30, 2005**

	Note	(Unaudited) September 30, 2005	(Audited) December 31, 2004 (Restated)
(Rupees in '000)			
<b>ASSETS</b>			
Cash and balances with treasury banks		38,163,544	31,934,375
Balances with other banks		19,894,095	24,005,342
Lendings to financial institutions		3,137,355	3,755,039
Investments	4	126,892,560	130,709,196
Advances	5	270,990,636	250,612,460
Other assets		14,836,963	11,719,874
Operating fixed assets		10,837,727	10,949,060
Deferred tax asset - net		948,039	1,978,144
		485,700,919	465,663,490
<b>LIABILITIES</b>			
Bills payable		7,292,459	7,359,133
Borrowings from financial institutions	6	21,005,402	26,624,558
Deposits and other accounts	7	400,741,437	386,332,570
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Other liabilities		19,648,252	13,350,205
Deferred tax liabilities		-	-
		448,687,550	433,666,466
<b>NET ASSETS</b>		<b>37,013,369</b>	<b>31,997,024</b>
<b>REPRESENTED BY:</b>			
<b>Shareholders' equity</b>			
Share capital		6,900,000	6,900,000
Other tier 1 capital		-	-
Capital reserves		1,790,661	2,177,026
Unappropriated profit and other reserves		20,810,504	14,822,611
		29,501,165	23,899,637
Surplus on revaluation of assets - net of tax	8	7,512,204	8,097,387
		37,013,369	31,997,024
<b>CONTINGENCIES AND COMMITMENTS</b>	<b>9</b>		

The annexed notes 1 to 13 form an integral part of these financial statements.

**R. Zakir Mahmood**  
**President and Chief Executive Officer**

**Ahmad Waqar**  
**Director**

**M. Ismail Qureshi**  
**Director**

**Shaukat Hayat Durrani**  
**Director**

**HABIB BANK LIMITED**  
**PROFIT AND LOSS ACCOUNT (Unaudited)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005**

	Nine months ended		Quarter ended	
	January 01 to September 30, 2005	January 01 to September 30, 2004 (Restated)	July 01 to September 30, 2005	July 01 to September 30, 2004 (Restated)
Note	----- (Rupees in '000) -----			
Mark-up / return / interest earned	20,843,374	11,866,064	8,062,274	4,331,037
Mark-up / return / interest expensed	4,538,193	3,032,779	1,750,195	1,132,671
Net mark-up / interest income	16,305,181	8,833,285	6,312,079	3,198,366
Provision against non-performing loans and advances - net	1,219,844	2,123,064	837,394	941,627
Provision against off-balance sheet obligations	128,851	251,311	-	-
Reversal of provision against diminution in value of investments	(16,554)	(179,308)	(10,532)	(39,133)
Bad debts written off directly	-	-	-	-
	1,332,141	2,195,067	826,862	902,494
Net mark-up / interest income after provisions	14,973,040	6,638,218	5,485,217	2,295,872
<b>Non mark-up / interest income</b>				
Fee, commission and brokerage income	1,928,586	1,818,681	742,156	694,427
Gain on investments	1,111,121	2,697,778	140,199	1,183,201
Dividend income	142,431	413,696	49,099	241,673
Income from dealing in foreign currencies	823,725	640,416	318,814	256,456
Other income	1,286,891	1,383,749	415,415	416,383
Total non-mark-up / interest income	5,292,754	6,954,320	1,665,683	2,792,140
	20,265,794	13,592,538	7,150,900	5,088,012
<b>Non mark-up / interest expense</b>				
Administrative expenses	11,652,349	9,426,851	3,358,299	3,232,563
Other provisions - net	(9,572)	88,719	11,539	2,315
Other charges	42,356	5,144	649	797
Total non mark-up / interest expenses	11,685,133	9,520,714	3,370,487	3,235,675
<b>PROFIT BEFORE TAXATION</b>	8,580,661	4,071,824	3,780,413	1,852,337
Taxation - current	1,652,645	378,751	1,502,617	129,317
- prior periods	(44,387)	(6,450)	41	11,463
- deferred	1,047,695	598,047	(368,822)	131,660
	2,655,953	970,348	1,133,836	272,440
<b>PROFIT AFTER TAXATION</b>	5,924,708	3,101,476	2,646,577	1,579,897
Basic and Diluted earnings per share	11.45	5.99	3.84	2.29
	(----- annualised -----)		(----- for the quarter -----)	

The annexed notes 1 to 13 form an integral part of these financial statements.

**R. Zakir Mahmood**  
**President and Chief Executive Officer**

**Ahmad Waqar**  
**Director**

**M. Ismail Qureshi**  
**Director**

**Shaukat Hayat Durrani**  
**Director**

**HABIB BANK LIMITED**  
**PROFIT AND LOSS ACCOUNT (continued)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005**

	Nine months ended		Quarter ended	
	January 01 to September 30, 2005	January 01 to September 30, 2004 (Restated)	July 01 to September 30, 2005	July 01 to September 30, 2004 (Restated)
	----- (Rupees in '000) -----			
<b>PROFIT AFTER TAXATION</b>	5,924,708	3,101,476	2,646,577	1,579,897
Unappropriated profit / (accumulated loss) brought forward	2,744,939	(11,946,020)	5,410,253	(11,886,474)
	8,669,647	(8,844,544)	8,056,830	(10,306,577)
<b>APPROPRIATIONS AND TRANSFERS:</b>				
Transferred from :				
Surplus on revaluation of fixed assets				
Current period - net of tax	63,185	55,143	20,376	12,628
Transferred to:				
Statutory reserve	(1,040,541)	(615,299)	(384,915)	(313,829)
Capital reserve	-	-	-	-
General reserve	-	(2,460,893)	-	(1,257,815)
Reserves set aside as per regulatory requirements of overseas joint ventures	-	-	-	-
	(1,040,541)	(3,076,192)	(384,915)	(1,571,644)
Unappropriated profit / (accumulated loss) carried forward	7,692,291	(11,865,593)	7,692,291	(11,865,593)

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**HABIB BANK LIMITED**  
**CASH FLOW STATEMENT (Unaudited)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005**

Note	September 30, 2005	September 30, 2004 (Restated)
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	8,580,661	4,071,824
Less: Dividend income and fair value adjustments in subsidiaries and joint ventures	(214,073)	(895,898)
Profit from investment securities	(1,111,121)	(2,697,778)
	<u>(1,325,194)</u>	<u>(3,593,676)</u>
	7,255,467	478,148
Adjustment for non-cash charges		
Depreciation	580,684	562,443
Reversal of provision against diminution in the value of investments	(16,554)	(179,308)
Provision against non-performing loans and advances - net of reversals	1,219,844	2,123,064
Amortisation of premium on investments	315,211	312,010
Profit on sale of fixed assets	(11,317)	(18,291)
Miscellaneous provisions	(263,054)	583,030
	<u>1,824,814</u>	<u>3,382,948</u>
	9,080,281	3,861,096
(Increase) / decrease in operating assets		
Government securities	2,714,761	13,468,090
Lendings to financial institutions	617,684	9,451,831
Loans and advances	(21,598,019)	(39,516,808)
Other assets - net	(3,636,917)	(1,217,427)
	<u>(21,902,491)</u>	<u>(17,814,314)</u>
Increase / (decrease) in operating liabilities		
Deposits and other accounts	14,408,867	21,011,984
Borrowings from financial institutions	(5,619,156)	3,277,768
Bills payable	(66,674)	(402,927)
Other liabilities - net	6,906,101	(180,901)
	<u>15,629,138</u>	<u>23,705,924</u>
	2,806,928	9,752,706
Dividend Paid	(345,000)	-
Income tax refunded / (paid)	(1,049,639)	(706,065)
Net cash flows from operating activities	<u>1,412,289</u>	<u>9,046,641</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investments in held to maturity and available-for-sale securities and joint ventures	1,446,487	2,384,163
Investment in subsidiary companies	-	-
Dividend income received	103,640	453,515
Fixed capital expenditure	(478,851)	(595,660)
Proceeds from sale of fixed assets	20,722	43,920
Net cash flows from investing activities	<u>1,091,998</u>	<u>2,285,938</u>
Exchange adjustment on translation of balances in foreign branches, subsidiaries and joint ventures	(386,365)	362,043
Increase in cash and cash equivalents during the period	<u>2,117,922</u>	<u>11,694,622</u>
Cash and cash equivalents at beginning of the period	56,655,838	40,644,621
Effects of exchange rate changes on cash and cash equivalents	(716,121)	576,081
	55,939,717	41,220,702
Cash and cash equivalents at end of the period	<u><u>58,057,639</u></u>	<u><u>52,915,324</u></u>

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**HABIB BANK LIMITED**  
**STATEMENT OF CHANGES IN EQUITY (Unaudited)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005**

	Share Capital	Other tier 1 Capital	RESERVES				Total	
			Capital		Other Reserves			
			Exchange Translation Reserve	Joint Ventures and Subsidiaries	Statutory	General		Unappropriated profit / (accumulated loss)
----- (Rupees in '000) -----								
Balance as at December 31, 2003 as previously reported	12,178,495	8,000,000	1,274,578	610,511	4,870,741	3,112,919	(13,278,495)	16,768,749
Change in accounting policy for investment in subsidiaries, associates and joint venture companies	-	-	-	(610,511)	-	-	1,332,475	721,964
Balance as at December 31, 2003 as restated	12,178,495	8,000,000	1,274,578	-	4,870,741	3,112,919	(11,946,020)	17,490,713
Profit after taxation for the period (restated)	-	-	-	-	-	-	3,101,476	3,101,476
Issue of right shares during the period	8,000,000	(8,000,000)	-	-	-	-	-	-
Transferred from surplus on revaluation of fixed assets to accumulated losses for: - Current period - net of tax	-	-	-	-	-	-	55,143	55,143
Transferred to statutory reserves	-	-	-	-	615,299	-	(615,299)	-
Transferred to general reserves	-	-	-	-	-	2,460,893	(2,460,893)	-
Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies	-	-	362,043	-	-	-	-	362,043
Balance as at September 30, 2004 as restated	20,178,495	-	1,636,621	-	5,486,040	5,573,812	(11,865,593)	21,009,375
Profit after taxation for the period (restated)	-	-	-	-	-	-	2,682,228	2,682,228
Reduction in share capital	(13,278,495)	-	-	-	-	-	13,278,495	-
Transferred from surplus on revaluation of fixed assets to accumulated losses for: - Current period - net of tax	-	-	-	-	-	-	12,629	12,629
Transferred to statutory reserves	-	-	-	-	517,820	-	(517,820)	-
Transferred to general reserves	-	-	-	-	-	500,000	(500,000)	-
Cash dividend	-	-	-	-	-	-	(345,000)	(345,000)
Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies	-	-	540,405	-	-	-	-	540,405
Balance as at December 31, 2004 as restated	6,900,000	-	2,177,026	-	6,003,860	6,073,812	2,744,939	23,899,637
Profit after taxation for the period	-	-	-	-	-	-	5,924,708	5,924,708
Transferred from surplus on revaluation of fixed assets to unappropriated profit for: - Current period - net of tax	-	-	-	-	-	-	63,185	63,185
Transferred to statutory reserves	-	-	-	-	1,040,541	-	(1,040,541)	-
Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies	-	-	(386,365)	-	-	-	-	(386,365)
Balance as at September 30, 2005	6,900,000	-	1,790,661	-	7,044,401	6,073,812	7,692,291	29,501,165

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Habib Bank Limited  
**Notes to the Financial Statements (Unaudited)**  
*For the nine months ended September 30, 2005*

**1 THE BANK AND ITS OPERATIONS**

Habib Bank Limited is incorporated in Pakistan and is engaged in commercial banking, modaraba management and related services in Pakistan and overseas. The Bank's registered office and principal offices are situated at Habib Bank Plaza, I. I. Chundrigar road, Karachi. The Bank operates 1,425 branches inside Pakistan and 44 branches outside Pakistan (including the KEPZ branch).

**2 STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962. Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of these standards, the requirement of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence. The disclosures made in these financial statements have, however, been limited based on the format prescribed by the State Bank of Pakistan vide BSD Circular letter No. 2 dated May 12, 2004 and the requirements of International Accounting Standard 34 'Interim Financial Reporting'.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of the annual accounts of the Bank for the year ended December 31, 2004 except for the change as discussed in note 3.1 below.

**3.1 Investment in Subsidiaries, Jointly Controlled Entities and Associates**

The Bank has changed its accounting policy in respect of accounting for investment in subsidiaries and jointly controlled entities from equity method of accounting to the fair value basis. This change in accounting policy, has been made to comply with the new requirements of International Accounting Standard (IAS) 27 "Consolidated and Separate Financial Statements", IAS 28 "Investment in Associates" and IAS 31 "Interest in Joint Ventures". These IASs are applicable for annual periods beginning on or after January 01, 2005. Had this change in accounting policy not been made, the value of investment in subsidiaries and joint venture entities would have been lower by Rs 797.954 million and profit for the nine months ended September 30, 2005, would be higher by Rs 10.995 million.

4 INVESTMENTS	Note	September 30, 2005			December 31, 2004		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
							(Rupees in '000)
							(Restated)
<b>Held to Maturity securities (HTM)</b>							
<i>Federal Government Securities</i>							
		16,108,457		16,108,457	21,398,951	-	21,398,951
		1,610,368	-	1,610,368	1,622,989	-	1,622,989
		2,580,470	-	2,580,470	4,571,042	-	4,571,042
		281,690	-	281,690	280,417	-	280,417
		20,580,985	-	20,580,985	27,873,399	-	27,873,399
<b>Available-for-sale securities (AFS)</b>							
<i>Federal Government Securities</i>							
		52,831,577	5,930,914	58,762,491	47,250,726	8,367,090	55,617,816
		950,040	-	950,040	905,446	-	905,446
	4.1	23,685,028	-	23,685,028	23,722,271	-	23,722,271
		599,993	-	599,993	899,993	-	899,993
		852,709	-	852,709	1,114,367	-	1,114,367
		6,683,642	-	6,683,642	5,010,295	-	5,010,295
<i>Fully paid-up ordinary shares:</i>							
		1,257,039	-	1,257,039	1,619,112	-	1,619,112
		355,802	-	355,802	355,791	-	355,791
		6,585,176	-	6,585,176	6,592,468	-	6,592,468
		3,537	-	3,537	3,537	-	3,537
		234,055	-	234,055	189,466	-	189,466
		86,792	-	86,792	82,112	-	82,112
		94,125,390	5,930,914	100,056,304	87,745,584	8,367,090	96,112,674
		187,816	(4,551)	183,265	738,037	(15,278)	722,759
		94,313,206	5,926,363	100,239,569	88,483,621	8,351,812	96,835,433
		63,300	-	63,300	63,300	-	63,300
		3,633,803	-	3,633,803	3,733,949	-	3,733,949
		2,374,903	-	2,374,903	2,203,115	-	2,203,115
		120,966,197	5,926,363	126,892,560	122,357,384	8,351,812	130,709,196

4.1 This figure includes an amount of Rs 10,899.739 million in respect of which the Government of Pakistan (GOP) has committed to issue bonds against assessed tax refunds and in respect of certain non-performing advances, debentures and corporate debt instruments transferred to Corporate and Industrial Restructuring Corporation (CIRC).

#### 4.2 Particulars of provision held against diminution in value of investments

The balances above are stated net of specific provision held. The analysis of total provision held is as follows:

	September 30, 2005	December 31, 2004
	----- (Rupees in '000) -----	
Opening balance	655,870	904,172
Reversed during the period / year	(16,554)	(151,218)
Amount written off	(8,118)	(97,084)
Closing balance	<u>631,198</u>	<u>655,870</u>

#### 5 ADVANCES

Loans, cash credits, running finances, etc.

In Pakistan	235,552,246	220,599,097
Outside Pakistan	<u>29,423,323</u>	<u>28,848,157</u>
	264,975,569	249,447,254
 Net investment in finance lease - in Pakistan	 10,810,265	 6,833,790
 Bills discounted and purchased (excluding Government treasury bills)		
Payable in Pakistan	11,132,232	9,800,467
Payable outside Pakistan	10,755,346	11,837,563
	21,887,578	21,638,030
 Provision against non-performing advances		
- Specific	(25,353,490)	(26,442,724)
- General	(1,329,286)	(863,890)
	<u>270,990,636</u>	<u>250,612,460</u>

5.1 Advances include Rs 36,172.609 million (2004: Rs 38,468.111 million) which have been placed under non-performing status as detailed below:

Category of Classification	September 30, 2005		
	Non-performing advances	Provision Required	Provision Held
	----- (Rupees in '000) -----		
<b>Pakistan</b>			
Other Assets Especially Mentioned	1,435,263	-	-
Substandard	3,064,678	375,162	375,162
Doubtful	1,858,237	816,854	816,854
Loss	<u>21,578,092</u>	<u>17,086,667</u>	<u>17,086,667</u>
	27,936,270	18,278,683	18,278,683
<b>Overseas operations</b>	8,236,339	7,074,807	7,074,807
<b>General Provision - Domestic</b>	-	1,204,758	1,204,758
<b>- Overseas</b>	-	124,528	124,528
<b>Total</b>	<u>36,172,609</u>	<u>26,682,776</u>	<u>26,682,776</u>



**5.2 Particulars of loans and advances to directors, associated companies, etc.**

	<b>Balance as at September 30, 2005</b>	<b>Maximum total amount of loans and advances including temporary advances granted during the period</b>
	(Rupees in '000) **	
Debts due by directors or executives of the Bank or any of them either severally or jointly with any other persons:		
- in respect of directors	-	-
- in respect of executives *	213,920	213,920
Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members	352,000	392,000
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties	-	-
* (These represent staff loans given by the Bank to its executives as per their terms of employment)		
** (Maximum amount has been arrived at by reference to month end balance)		

<b>September 30, 2005</b>	<b>December 31, 2004</b>
(Rupees in '000)	

**6 BORROWINGS FROM FINANCIAL INSTITUTIONS**

**Secured**

Borrowings from State Bank of Pakistan under		
Export refinance scheme	13,257,755	14,771,718
Locally manufactured machinery refinance scheme	10,579	4,163
Export oriented Projects refinance scheme	2,742	-
Others	-	-
Repurchase agreement borrowings	5,934,532	8,329,748
	<u>19,205,608</u>	<u>23,105,629</u>

**Unsecured**

**In Pakistan**

International Development Agency	-	-
Interbank call money borrowing	260,000	556,580
	260,000	556,580

**Outside Pakistan**

Overdrawn nostro accounts	213,119	349,208
Borrowings of overseas branches	1,326,675	2,613,141
	<u>1,539,794</u>	<u>2,962,349</u>
	1,799,794	3,518,929
	<u>21,005,402</u>	<u>26,624,558</u>

**7 DEPOSITS AND OTHER ACCOUNTS**

**Customers**

Fixed deposits	99,477,801	61,611,013
Savings deposits	211,647,186	238,625,324
Current accounts - non-remunerative	82,180,903	81,462,310
	<u>393,305,890</u>	<u>381,698,647</u>

**Financial institutions**

Remunerative deposits	5,386,080	2,891,983
Non-remunerative deposits	2,049,467	1,741,940
	<u>7,435,547</u>	<u>4,633,923</u>
	<u>400,741,437</u>	<u>386,332,570</u>

8 SURPLUS ON REVALUATION OF ASSETS - net of tax	Note	September 30, 2005	December 31, 2004
		(Rupees in '000)	
Surplus arising on revaluation of:			
- fixed assets	8.1	7,260,939	7,323,885
- investments	8.2	251,265	773,502
Surplus on revaluation of assets - net of tax		<u>7,512,204</u>	<u>8,097,387</u>
<b>8.1 Surplus on revaluation of fixed assets</b>			
Surplus on revaluation of fixed assets as at January 1		8,027,572	4,074,924
(Adjustment) / surplus on revaluation of bank's properties during the period / year		(95)	4,055,522
Surplus realised on disposal of revalued properties during the period / year		(2,057)	(17,259)
Transferred to unappropriated profit / (loss) in respect of incremental depreciation charged during the period / year - net of deferred tax		(61,128)	(50,513)
Related deferred tax liability of incremental depreciation charged during the period / year		(37,466)	(35,102)
Surplus on revaluation of fixed assets as at period / year end		<u>7,926,826</u>	<u>8,027,572</u>
Less: related deferred tax liability on:			
revaluation as at January 1		703,687	480,485
revaluation of bank's properties adjusted / recognised during the period / year		(33)	258,567
incremental depreciation charged during the period / year transferred to profit and loss account		(37,466)	(35,102)
disposal of revalued properties reversed during the period / year		(301)	(263)
		<u>665,887</u>	<u>703,687</u>
		<u>7,260,939</u>	<u>7,323,885</u>
<b>8.2 Surplus / (deficit) on revaluation of investments</b>			
Market treasury bills		(48,079)	(76,106)
Pakistan Investment Bonds		(144,980)	(67,980)
Listed securities		292,040	806,412
NIT units		17,888	15,163
Other investments		66,396	45,270
		183,265	722,759
Add: related deferred tax asset		68,000	50,743
		<u>251,265</u>	<u>773,502</u>

	<b>September 30, 2005</b>	<b>December 31, 2004</b>
	<b>(Rupees in '000)</b>	
<b>9 CONTINGENCIES AND COMMITMENTS</b>		
<b>9.1 Direct credit substitutes</b>	20,520,853	16,326,865
<b>9.2 Transaction-related contingent liabilities</b>		
Guarantees in favour of:		
Government	10,896,434	10,043,176
Financial institutions	427,724	421,610
Others	3,526,176	3,502,908
	<u>14,850,334</u>	<u>13,967,694</u>
<b>9.3 Trade-related commitments</b>		
Credit cash	73,573,026	60,328,860
Credit documentary acceptance	14,200,790	6,946,098
Credit acceptance	9,914,294	10,179,249
	<u>97,688,110</u>	<u>77,454,207</u>

**9.4 Commitments in respect of forward lending**

The bank makes commitments to extend credit in the normal course of its business but none of these commitments are irrevocable and do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

	<b>September 30, 2005</b>	<b>December 31, 2004</b>
	<b>(Rupees in '000)</b>	
<b>9.5 Other contingencies</b>		
Claims against the Bank not acknowledged as debts	39,728,859	41,826,303
<b>9.6 Commitments in respect of forward foreign exchange contracts</b>		
Purchase	39,471,674	41,686,319
Sale	32,156,577	33,126,909
<b>9.7 Commitments for acquisition of operating fixed assets</b>	52,263	132,285

**9.8** The Bank has committed to upgrade its computer software system for all its international and domestic operations and the remaining committed cost in this respect is approximately Rs 197.536 million.

**9.9 Taxation**

As at December 31, 2004, an amount of Rs 2,378 million was being shown as contingent liability in respect of assessments upto financial year 2001, relating to Azad Jammu and Kashmir (AJ&K) taxation. During the year, a committee was constituted under the Chairmanship of Secretary KA&NA Division / AJ&K Council with the representatives from Finance Division, Central Board of Revenue, State Bank of Pakistan and Commercial Banks to determine a basis / formula for assessment of income tax on the earnings of Commercial Banks operating in Azad Kashmir.

The recommendations / basis established by the Committee were duly approved by the Prime Minister of Pakistan and Chairman AJ&K Council. Hence the contingent liability has been removed and the corresponding tax calculations have been incorporated in the accounts.

## 10 RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its associated undertakings, subsidiary companies, joint venture companies, employee benefit plans, and its directors and executive officers (including their associates) and retirement benefit funds.

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk (i.e. under the comparable uncontrolled price method).

Contributions to and accruals in respect of staff retirement and other benefit plans are made in accordance with the actuarial valuation / terms of the contribution plan. Remuneration to the executives, are determined in accordance with the terms of their appointment.

Details of transactions with related parties except those under the terms of employment and balances with them as at the period-end were as follows:

	<b>September 30, 2005</b>	<b>December 31, 2004</b>
	<b>(Rupees in '000)</b>	
Balances outstanding as at the period / year end		
- Borrowings from related parties	2,082,061	6,933,316
- Deposits from retirement benefit funds	100,275	218,510
- Deposits from other related parties	-	-
- Payable to staff welfare fund	-	-
- Receivable from defined benefit plan *	4,045,129	3,584,238
- Balances with related parties	359,614	450,502
- Other contingencies and commitments	14,762	17,660
- Guarantees favouring related parties	-	24,687
- Acceptances from related parties	16,818	34,730
- Acceptances to related parties	5,496	-

\* (It includes an amount receivable on account of investments transferred to staff retirement benefit funds at encashable value)

	<b>September 30, 2005</b>	<b>September 30, 2004</b>
	<b>(Rupees in '000)</b>	
Profit / Expense for the period		
- Dividend and other remittances received during the period	59,092	103,201
- Interest paid during the period	90,119	60,556
- Modaraba management fees	6,000	6,707
- Interest income for the period	14,398	3,370
- Other income	8,744	-
- Other expense	1,185	25,261

Transactions entered into with directors / executive officers as per their terms of employment are excluded from related party transactions.

## 11 EMPLOYEE COST

**11.1** During the year the Bank offered voluntary staff separation scheme (VSSS) to some of its employees. Under this scheme 2,202 employees opted for the separation. The Bank has incurred additional cost of Rs 1,574 million in this respect.

**11.2** - The Bank has introduced defined contribution schemes for post retirement benefits effective from April 01, 2005 in place of the current defined benefit schemes. The benefits for service up to March 31, 2005 will continue to be computed under the terms of the defined benefit schemes of Pension and Gratuity.

- All executives and officers who retire after January 01, 2006 will be entitled to receive lump sum payment in lieu of Post Retirement Medical facilities.

The net charge for the period related to post retirement staff benefits, based on the actuarial valuations conducted as on 30 June 05, amounted to Rs 695 million and is included in administrative expenses.

## **12 CORRESPONDING FIGURES**

Corresponding figures have been reclassified, where necessary, for the purpose of comparison. Significant reclassifications relate to changes arising as a consequence of change in accounting policy as explained in note 3.1.

## **13 DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on 20th October 2005 by the Board of Directors of the Bank.

**R. Zakir Mahmood**  
President and Chief Executive Officer

**Ahmad Waqar**  
Director

**M. Ismail Qureshi**  
Director

**Shaukat Hayat Durrani**  
Director